

Larger Issuers, Global Demand Driving Growth of Private Placement Debt

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John Wills of MetLife Investment Management charts the rise of a market investors are flocking to on an increasingly international basis.

The private debt market has grown by leaps and bounds since the great financial crisis, with new capital commitments raised reaching \$166.3 billion globally in 2018.¹ That's a dramatic increase from just a few years ago; in 2010, following on the heels of the financial crisis, worldwide private debt fundraising amounted to just \$48.7 billion, according to Private Debt Investor data.

While this growth in fundraising mirrors the rise in fund manager-driven private debt origination, what is often overlooked is the tremendous growth of the private placement debt market. We are seeing the private lending market continuing to evolve and expand, and we have particularly noticed an increasing number of large corporate issuers, a rising proportion of investment grade issuers, and a greater geographic diversification across issuers.



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<https://www.privatedebtinvestor.com/larger-issuers-global-demand-driving-growth-private-placement-debt/>

Large multi-national issuers gaining ground

Once seen as a financing alternative primarily for middle-market borrowers, private placement debt is now becoming more widely used by major multi-national corporations. Large issuers are increasingly attracted to the private placement debt market for a variety of reasons:

- It allows a corporation to diversify its capital structure and access a wider range of capital sources.
- A number of traditional bank lenders have curtailed their corporate lending in recent years in response to more stringent post-crisis capital requirements.
- Investors in private debt, which often include insurance companies, are more willing than banks to offer longer maturities, as they can match longer-term credits to the duration of their liabilities.
- Private placement debt can provide more flexibility in deal structures and terms – including delayed fundings, specific maturity lengths, multiple currencies, that all enable a management team the ability to customise the transaction to accomplish various strategic objectives with respect to the company's capital structure.
- The private nature of such transactions also appeals to corporate issuers that need to maintain greater confidentiality than might be possible with public debt issuances.

Growth in investment grade private debt

Along with the growing prevalence of larger corporate issuers, the private placement debt market is characterised by a higher incidence of investment grade issues.² Unlike public corporate bonds, private placement debt is often unrated. However, because of the significant number of insurance company investors, private placement debt in the US is always assigned a credit quality designation from the National Association of Insurance Commissioners (NAIC) that is comparable to an agency rating. In recent years, the vast majority of new-issue private placements were either rated as investment grade or designated as such by the NAIC.

While investment grade issues are on the increase, it is important for investors in private placement debt to stay vigilant with respect to deal structures, as the global economy continues to show signs of uncertainty. Investors in private placements have largely avoided the “covenant-light” approaches that have been seen among some participants in middle-market lending or more aggressive participants in the conventional bank loan market. However, investors should pay close attention to the composition of EBITDA, as issuers may have a tendency to define this measure in a self-serving way that may not hold up in the face of an economic downturn.

That said, it is important to emphasise that credit quality and deal structures in the private placement debt market have historically been very strong. According to a study of selected insurance investors by the Society of Actuaries, the annual economic loss rate for private placement debt was 0.20 percent in 2008 and 0.29 percent in 2009 – despite the impact of the financial crisis.³

An increasingly global market

Today's private placement debt market is notable for being truly global in scope – and becoming more so with every passing year. While the majority of aggregate capital raised for private placement debt in 2018 was raised for North American issuers, roughly one third was raised for issuers outside of the US.⁴ The UK has been a strong country for private placement issuance since the early 2000s and typically makes up anywhere from 15 percent to 30 percent of annual overall issuance.

We are also seeing strong investor interest in other international markets, as well, including Australia and New Zealand, Latin America (where investments in transportation and other infrastructure elements are especially prevalent), and to a lesser extent Asia (where aggressive lending by large banks has made private debt less viable). Our own experience at MetLife Investment Management is indicative of the growing global reach of private placement debt: in just the first half of 2019, we invested more than \$900 million in Australia, nearly \$800 million in the UK, and over \$800 million in the broader Europe, Middle East; Africa (EMEA) region, reflecting the continued strong global demand for private capital.

The private placement debt market shows no signs of contracting – and we believe there will continue to be both strong demand by issuers and a robust supply of capital from investors. This asset class offers investors attractive yields in today's low interest rate environment, along with portfolio diversification and covenant structures similar to senior bank facilities. For issuers, the market provides access to capital, along with flexible deal structures and longer terms that align with the borrowers' strategic objectives.

Endnotes

1 Private Debt Investor data

2 Society of Actuaries, 2003-12 Credit Risk Loss Experience Study: Private Placement Bonds

3 Society of Actuaries, 2003-12 Credit Risk Loss Experience Study: Private Placement Bonds

4 IHS Markit, The Rise of Private Debt, August 07, 2017

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For more information, visit: [metlife.com/investmentmanagement](https://www.metlife.com/investmentmanagement)

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